

Statement of
Rudolph G. Penner
Director
Congressional Budget Office

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In 1983, nearly 14 million American children, or more than one child in five, lived in poverty as measured by the official Bureau of the Census definition. These children constituted nearly 40 percent of all poor people, and they and the adults with whom they lived represented more than two-thirds of the poverty population. Although these figures were recorded near the end of a deep recession and some improvement is likely because of the subsequent economic recovery, the poverty rate among children is not apt to drop very sharply, and large numbers of children will almost certainly be poor for some years to come.

I am pleased to be here to discuss the incidence of poverty among children and options for alleviating it. The information I will be presenting is taken from the Congressional Budget Office's (CBO's) contribution to the study of children in poverty that your Committee is releasing today.

My remarks cover three topics:

- o The pattern of poverty among children;
- o The current federal role in helping poor children; and
- o Options for altering present federal efforts.

THE PATTERN OF POVERTY AMONG CHILDREN

Any measure of poverty is necessarily arbitrary, and the number of people--including children--who are deemed to be poor depends on what yardstick is used. Nonetheless, such measures are useful, both as guides to how economic hardship is distributed within the population and as means of judging progress toward alleviating it. The official poverty measure, which

was established two decades ago, judged each member of a family to be poor if the family had pretax cash income less than three times the cost of a nutritionally adequate but minimum diet. The measure remains essentially the same today, with adjustments made for changes in the cost of living. In 1983--the most recent year for which comprehensive data are available on family incomes--the poverty threshold for a family of three was roughly \$8,000. For other families, the thresholds varied from about \$5,000 for a single person to just over \$20,000 for families of nine or more.

By the Census measure, 22 percent of all children were poor in 1983. Alternative measures of poverty can be constructed by specifying different poverty thresholds, and by altering the definition of income available to families. The latter could be changed to include in-kind benefits (such as food stamps and housing subsidies), and to exclude taxes that reduce the resources available to pay for goods and services. Under 11 illustrative combinations of such changes considered by the CBO, the overall childhood poverty rate varied from about two percentage points less than the official rate to about six percentage points above it (see Table 1).

Under these poverty measures, the proportion of all children who are poor varies greatly according to household composition, ethnicity and race, and where the children live. Using the official definition, of all children living in single-parent households headed by women, 55 percent were poor in 1983--more than four times the rate for children in other households. In the same year, 47 percent of all black children and 38 percent of all Hispanic children were poor compared with 15 percent of all nonminority children.

TABLE 1. POVERTY RATES FOR CHILDREN UNDER ALTERNATIVE ILLUSTRATIVE INCOME DEFINITIONS AND POVERTY THRESHOLDS, 1982

Poverty Threshold <u>a/</u>	Income Measure <u>b/</u>		
	Cash Only	Cash Plus In-Kind Benefits at Cash-Equivalent Value, Minus Taxes	Cash Plus In-Kind Benefits at Budget-Share Value, Minus Taxes
Official	21.9 <u>c/</u>	20.7	19.8
Reindexed	21.6	20.3	19.4
New Multiplier	24.9	25.6	25.2
Relative	26.4	27.7	27.3

SOURCE: Congressional Budget Office tabulations of March 1983 Current Population Survey including Bureau of the Census imputations of the value of the in-kind income and of taxes.

- a. The "reindexed" threshold uses an alternative price index based on the consumption patterns of poor families to update the original thresholds for inflation since 1965. The "new multiplier" threshold recalculates the income-to-food-expenditures ratio, based on more recent data and including in-kind income and consumption. Finally, the "relative" threshold is set at 50 percent of median family income. Of the three alternatives, the first is about 1 percent lower, the second 13 percent higher, and the last 19 percent higher than the official threshold in 1982.
- b. Two income measures are used--in addition to cash only--to take account of the value of in-kind benefits people receive and the federal income and payroll taxes they pay. The cash-equivalent/recipient-value measure tries to determine how much recipients value in-kind income, while the budget-share value is equal to the smaller of the market value of the in-kind income and the normal expenditure on the particular good by families at the poverty level. Both alternatives subtract federal income and payroll taxes paid.
- c. This value represents the current Bureau of the Census poverty measure.

Among minority children in households headed by a single woman, about 7 out of every 10 were poor. Geographically, poverty was most common among children who lived either in central portions of metropolitan areas or in non-metropolitan areas.

THE CURRENT FEDERAL ROLE

By its very nature, government affects the well-being of all citizens and influences how many of them are poor. Monetary and fiscal policies affect economic growth and stability; they determine how readily workers can find jobs and how much they can buy with the money they earn. The taxes collected by government help determine how much income is available to meet consumption needs. Moreover, an array of laws and regulations influences the operation of labor markets and other aspects of the economy.

In addition, governments at all levels provide a wide range of assistance intended to help people who remain in or near poverty. A number of cash and in-kind assistance programs--plus a tax credit for some families with low earnings--help low-income families with children meet their basic needs. Coverage is uneven, however, and average benefits vary geographically, sometimes greatly. Food Stamps--a federally financed program that helps families afford a minimally adequate diet--is the only assistance that is available to essentially all families in or near poverty. Aid to Families with Dependent Children (AFDC), which provides cash assistance, and Medicaid, which finances health care services, are shared federal/state responsibilities. Aid under these programs is available to most children living in

single-parent families with incomes less than state-established income-eligibility limits, which are generally well below the poverty thresholds. States also determine whether assistance is provided to children living in two-parent families where the principal earner is unemployed or works less than 100 hours per month. This core of assistance is supplemented by subsidized housing programs, which reduce shelter costs for some low-income families with children; by the Earned Income Tax Credit (EITC), which reduces the tax liability, or provides cash payments, for low-income families with children and low earnings; and by school-based meal programs that subsidize breakfasts and lunches for low-income children attending schools that choose to participate.

Complementing this direct assistance system are subsidies for employment and training intended to help the parents of poor children work their way out of poverty, as well as funding for a broad range of social services and education programs intended to alleviate some of the adverse consequences of poverty and reduce the incidence of poverty in the future. Most of this aid is available through annually appropriated programs that serve only a small share of those people who are eligible.

OPTIONS FOR HELPING LOW-INCOME CHILDREN

Because economic growth provides increased employment opportunities and higher incomes for those who work, government efforts to help promote economic expansion should be considered an integral part of any antipoverty policy. Even in a growing economy, however, many families with adults who work in jobs with very low pay may have difficulty meeting

their children's basic needs. Also, for families with no labor force attachment--especially families headed by single mothers who have responsibilities for caring for young children--poverty status is less related to the condition of the economy. Children in these families are more likely to remain poor for extended periods and to be dependent on welfare through much of their childhood. To a large extent, this long-term dependency results from their parents' low educational attainment, lack of skills, and limited early job experience. For some, long-term dependency is related to how young their mothers were when they first gave birth, which contributes to all these difficulties. While children in such families account for a small proportion of the poverty population at any time, they consume a disproportionately large share of welfare expenditures over the years and pose the greatest challenge to antipoverty policy.

Options for altering current federal efforts that help to reduce poverty among children, or its effects on them, are as varied as views regarding the dynamics of poverty and the appropriate role for government. Some alternatives would comprehensively restructure the current welfare system. These range from proposals to have the federal government assume full responsibility for providing a minimum income floor for all families with children, to proposals that would greatly scale back the current public assistance system in order to increase incentives for low-income people to take responsibility for improving their own well-being. Also, several of the current proposals for restructuring the federal income tax system include provisions that would reduce or eliminate the income taxes paid by poor families.

At the request of this Committee, the CBO's contribution to the study that you are releasing today focuses primarily on options that would modify existing policies, but would leave the structure of the present public assistance system the same. Again as requested, the options considered include many of those contained in the proposed Omnibus Antipoverty Act of 1984 (H.R. 4920), which was introduced in the last Congress. ^{1/} In Part II of the Committee's report, the CBO examines more than 40 specific options; in Part III, we provide additional detail regarding modifications to the AFDC program.

The remainder of my statement presents examples of the options that are discussed at greater length in Parts II and III of the Committee report. The specific alternatives reflect three different approaches to dealing with the problem of childhood poverty:

- o One set of options would increase government transfers to provide poor families with additional resources to meet immediate needs.
- o The second set of options include policy changes intended to enhance the ability of low-income families with children to achieve economic independence and, thus, to escape poverty through their own efforts.
- o The final set of options is designed to help alleviate some of the potential effects of poverty on children, or to reduce the incidence of childhood poverty in the future.

1. The specific parameters included in H.R. 4920 should be viewed as illustrative of various types of changes that could be made in current policies.

In considering any option, several fundamental issues must be addressed. For one thing, how effective would a particular approach be? This question is often difficult to answer fully. Even when the amount of aid is easily quantified, as in the case of cash benefits for poor families, it is difficult to know how much assistance actually reaches the children and thus what the impact will be on their well-being. Also, in deciding how much assistance to provide, there is necessarily a dilemma involved in balancing more help for the children with reduced incentives for their parents to support their families themselves. In other cases, such as the provision of many social services, it is inherently difficult to assess the effectiveness of alternative policies. Finally, the long-run impacts are seldom understood, even in cases where the immediate effects are well analyzed.

Even if there is general agreement that a particular approach is worthwhile, the large projected federal budget deficits confront the Congress with difficult tradeoffs. Because most proposals to modify current policies would require additional outlays or would reduce revenues, other demands on the government and limited tax revenues conflict with the desire to aid poor children. As the Congress works to reduce deficits, choices among these competing factors are particularly difficult.

Increase Resources Through Direct Assistance

One set of options would increase resources provided by the government--either by increasing benefits to families that are already eligible for assistance, or by expanding eligibility to reduce disparities that now exist in the treatment of similar types of families. Both approaches

would improve the living standards of some low-income families with children, but they could also weaken incentives for low-income families to make their own efforts to escape poverty.

Increase Benefit Levels. One option for increasing the incomes of low-income families with children would be to require that all states set minimum AFDC benefits at a level sufficient to assure that any assisted family would have cash income plus food stamps equal to at least 65 percent of the federal poverty guidelines.^{2/} If such a minimum were enacted to take effect in 1986, a family of three with no other income would receive an AFDC benefit of \$396 per month, plus \$132 in food stamps.

This option would raise AFDC benefits for some or all current recipients in 41 states. About 2.2 million families currently participating (that is, three-fifths of the total) would receive net increases averaging about \$75 per month in the combined value of their AFDC and food stamp benefits, and an estimated 190,000 additional families would join the AFDC program. Such a change would increase net costs for the federal government and the states by about \$2.7 billion in 1986, including increased AFDC expenditures, plus associated increases in Medicaid, net of reduced food stamp expenditures. About one-half of the increased costs would be

2. That level would be somewhat lower, for example, than the benefit level available through the Supplemental Security Income program, which serves low-income elderly, blind, and disabled people. This minimum AFDC benefit was included in the proposed Omnibus Antipoverty Act of 1984.

borne by the federal government. Raising benefits would also increase work disincentives, especially for people with low potential earnings and those in areas where wages are generally low.

Another option would be to encourage states to raise AFDC benefits faster than they otherwise would by reducing the states' share of costs for benefit increases. For example, as proposed in last year's Omnibus Antipoverty Act, the state share of benefit increases made on or after December 1, 1983 could be reduced by 30 percent. Costs and effects would depend on state responses. If states continued to raise benefits at present rates, this option would serve only to shift costs from them to the federal government. Alternatively, states could elect to hold their AFDC costs at the same level they otherwise would have been, and use the increased federal payments to raise benefit levels. Under these alternative assumptions, federal costs would rise by \$0.1 billion to \$0.2 billion in 1986, while states could save as much as \$0.1 billion in that year. Both federal costs and state savings would rise in later years, reflecting the impact of subsequent benefit increases. AFDC recipients in states that chose to increase benefits more rapidly than they now do would gain, but the amount cannot be estimated.

A third option would be to liberalize the Earned Income Tax Credit (EITC). In recent years, the tax burden on poor families has risen rapidly. A four-person family with earnings at the poverty level will pay over 10 percent of its income in federal payroll and income taxes in 1985--up from about 4 percent as recently as 1978. Over roughly the same period, the real

value of the EITC has declined. Between 1979 and 1983, the number of families benefiting from the credit declined by about 900,000, and total benefits realized fell by \$300 million.

Raising the EITC from 11 percent to 16 percent of the first \$5,000 of earnings, and phasing it out between \$11,000 and \$16,000 of earnings--as called for in last year's proposed Omnibus Antipoverty Act--would approximately return the credit to its 1979 level. Such a change would reduce the marginal tax rate for about 2.5 million current beneficiaries with earnings between \$6,500 and \$11,000. It would also provide benefits to about 3.7 million families that have earnings between \$11,000 and \$16,000 and cannot qualify under current law. For the latter group, however, changing the EITC in this way would raise their effective marginal tax rates, thus reducing their marginal incentives to work. The net budgetary impact would be about \$3.4 billion in 1986.

Reduce Disparities in Coverage. Other options would reduce disparities in coverage under current programs by extending eligibility to families that are not currently served in some or all states. One alternative would be to mandate coverage in the AFDC program for poor two-parent families in which the principal earner is not employed or works less than 100 hours per month--a group that about half the states have chosen not to cover. Another option would be to provide coverage for all poor two-parent families, regardless of their employment status. The latter change--which would provide benefits to some families that are currently categorically excluded under federal law--would add an estimated 450,000 families to the

AFDC rolls. Total net federal costs would be about \$1.3 billion in 1986; state costs would amount to about \$200 million in the same year. Such a change would reduce incentives for some low-income recipients to work, but it would also eliminate one incentive that low-income parents have not to marry or to break up if they are married.

Another alternative would be to require that states provide Medicaid coverage for all low-income children and pregnant women, regardless of the type of family in which they live. Mandatory Medicaid coverage for all children and pregnant women in families with incomes below 65 percent of the federal poverty guidelines, for example, would serve an additional 700,000 children and 100,000 pregnant women annually. This option would reduce disparities in the access of low-income children and pregnant women to health care without expanding eligibility for cash assistance. It would raise annual costs by roughly \$700 million, divided about evenly between the federal government and the states.

Promote Economic Independence

A second broad strategy for aiding poor children would be to help their parents or guardians achieve economic independence. This approach could involve raising work incentives or work requirements in current transfer programs; increasing employers' willingness to hire parents of poor children, either by raising parents' skills or by lowering the cost of employing them; or expanding access to child care.

Increase Work Incentives or Work Requirements in Current Transfer Programs. Numerous changes could be made in the rules governing public assistance programs to encourage parents to work more. The federal government could, for example, raise permissible deductions from income under the AFDC and Food Stamp programs; this change would lower the amount by which benefits are reduced for people who work. Specific changes could include allowing larger deductions to cover work-related expenses, raising limits on deductible child care costs, or disregarding a larger fraction of earnings in calculating benefits. The combination of adjustments in the AFDC program called for in last year's proposed Omnibus Antipoverty Act would affect about 215,000 current recipients, raising benefits by an average of \$69 per month in 1986 for 155,000 families, but lowering benefits by about \$15 per month for 60,000 others. In addition, an estimated 190,000 new participants would qualify for payments averaging \$116 per month. The total net cost would be about \$0.5 billion in 1986, about 40 percent of which would be paid by the federal government. While this option would reward families that try to help themselves, its effect on work effort is unclear.

Another option would be to require that all adults in families receiving AFDC benefits perform some work as a condition of receiving benefits, unless they are exempted for reasons such as disability or the responsibility of caring for a young child. Currently, many states have some type of "workfare" program for AFDC recipients, but in most states it is not universal. Mandatory workfare would increase incentives for welfare recipients to seek jobs. It might also provide welfare recipients with oppor-

tunities to increase their skills and credentials so that they could become self-sufficient. Many claims about the value of workfare are in dispute, however. Reliable information on its effects should be available shortly when evaluations of current demonstration programs are completed.

Increase the Ability of Low-Income Parents to Compete for Jobs. The employment prospects of low-income parents could also be improved by increasing their skills or by increasing the demand for the skills they have. One option for raising skill levels would be to increase training funds under the Job Training Partnership Act (JTPA). For example, an additional \$100 million in JTPA funds earmarked for AFDC recipients could provide training to about 50,000 more people--an increase of more than 40 percent in the number of AFDC recipients who now receive JTPA training. Based on evaluations of an earlier program, there is reason to anticipate that JTPA training could increase the future earnings of welfare recipients, especially for those with little previous work experience. Opponents argue, however, that some of the gains in earnings reflected differences in motivation between participants and nonparticipants, and that funding increases are not warranted.

Another approach would be to subsidize the wages of particular groups of workers. One option would be to reauthorize the Targeted Jobs Tax Credit (TJTC), which provides private employers who hire members of certain economically disadvantaged groups--including AFDC recipients--with tax credits of up to \$3,000 for the first year of employment and \$1,500 for the second year. Extending the credit, which is due to expire at the end of

this year, and limiting eligibility to AFDC recipients would encourage private employers to hire members of this group. On the other hand, employers might receive the subsidy for hiring workers they would have hired anyway.

Alternatively, more jobs for low-wage workers might be available if certain regulations and laws affecting the operation of labor markets were relaxed or eliminated. For example, the Congress could reduce the federal minimum wage, which is currently set at \$3.35 per hour. While this action would probably help additional members of poor families with children to find jobs, it would probably decrease earnings for some people who already hold minimum-wage jobs, because their wages would be reduced. The precise impact this option would have on poor families with children is not known.

Increase Access to Child Care. For some low-income parents, limited access to affordable child care may be the greatest constraint on their ability to look for jobs. One approach for increasing access is to provide incentive grants to states or nonprofit organizations to expand low-cost child care. Alternatively, child care for low-income families could be subsidized directly. For example, a set-aside could be provided in the Social Services Block Grant (SSBG), which is funded under Title XX of the Social Security Act. (Funding for the block grant is \$2.7 billion in the current fiscal year.) In addition, the dependent care tax credit could be modified to make it more valuable to low-income families. Considerable disagreement exists, however, over the adequacy of the current supply of child care,

the degree to which a lack of child care limits labor force participation, and the role the federal government should play in this area.

Alleviate Adverse Effects and Help Prevent Future Poverty

A final set of options focuses on ways to alleviate some of the adverse effects of poverty on children, or to help prevent poverty in the future.

Because teenage pregnancy contributes substantially to child poverty and long-term dependence on public assistance, another approach would be to attempt to reduce the teenage pregnancy rate and to help those teenagers who become pregnant. One option would be to increase funding for family life education programs or for family planning information and services. For example, increasing funding by \$100 million for Title X of the Public Health Service Act could provide family planning services to 1.4 million additional adolescents. Family life education and family planning could increase teenagers' knowledge of the consequences of sexual activity, as well as their access to contraception. There is great controversy, however, about whether it is appropriate for the federal government to fund such assistance or whether parents should be solely responsible. Pregnant teenagers could also be given information about adoption. In addition, comprehensive services could be provided to those teenage mothers who choose to raise their children themselves, by assisting them to remain in school and thereby improving their chances of achieving economic independence.

Another approach would be to provide ameliorative or preventive services to the children themselves. One example would be to increase funding for the Head Start program, which pays for a wide range of services for low-income children and their families through a preschool day care program. In addition to safe and developmentally oriented day care, the program provides children with medical and dental services, as well as balanced meals. While the long-term educational effects of the national Head Start program remain unclear, some preschool intervention programs have been found to lessen substantially the odds of failure in school, and even to improve employment experiences after high school. Funding for this program is \$1.1 billion in 1985.

The federal role could also be expanded in helping prevent child abuse or neglect. Although these problems are found in families at all income levels, some low-income families find it particularly difficult to resolve their difficulties because of inadequate resources. One option would be to encourage states to develop programs to remedy some of the problems that low-income families face in the child welfare system. For example, funds could be provided either through the Social Services Block Grant, or through a new grant program, to help states provide prevention and reunification services to meet the needs of low-income families.

Funding could also be increased for the Supplemental Food Program for Women, Infants, and Children (WIC), which provides food assistance and nutritional screening to low-income pregnant and postpartum women and their infants, as well as to low-income children up to age five. Evaluations of the WIC program have found it to be effective in reducing the incidence

of low birthweight among infants--a condition that is linked to increased probability of infant mortality and a wide variety of birth defects. Program coverage appears to be incomplete, however. Current appropriations--which are set at about \$1.5 billion in 1985--are estimated to be sufficient to serve only about one-third of all income-eligible women, one-half of all income-eligible infants, and one-fifth of all income-eligible children. Data are unavailable, however, on the proportion who also meet the nutritional-risk criterion.

CONCLUSION

In conclusion, children make up the largest single group among the poor in this country, and their numbers grew sharply between 1979 and 1983. While some improvement has probably occurred since the most recent information was gathered, children will almost certainly continue to constitute a large share of the poor population for some years to come.

Numerous options are available for altering current federal efforts to help these children, but most would either increase federal outlays or lower revenues during a time of overall budgetary stringency. Balancing the desire to help poor children with broad budgetary concerns poses difficult tradeoffs for the Congress.